



Management Discussion and Analysis

LH Financial Group Public Company Limited

For the Year ended 31 December 2013

(This report discusses principal changes in the audited consolidated financial statement)

LH Financial Group Public Company Limited is the non-operating holding company, which currently holds 99.99% of total paid-up shares of Land and Houses Bank Public Company Limited and the bank holds 99.99% of Land and Houses Fund Management Company Limited. Therefore, Land and Houses Bank PCL., is its core company which the company's performances come from the operations of the Bank.

Overview of economy

Economic overview in 2013, Thailand's GDP grows at 2.9%. In the first half, the economic has been driven mainly by domestic expenditure from both consumption and private investment. However, the economic sign after the First-Car policy was expired at the end of 2012 founded the household debt rising nearly 80% of GDP including NPL ratio of financial institute rising from car loan and retail loan. Agricultural income was slowed down, subsidized agricultural products decreased, the level of energy subsidies by the government gradually reduce in order to prepare the energy cost of country to be in the equal level with the neighboring country on purpose of reducing the illegal export energy to the neighboring country. While the second half, after the global economy led by the USA has recovery signal and reduction QE announced in December 2013 in which supported factor of exporting. But Thailand's exporting may be recovered slower than many countries due to the obstacle such as technological limitation, domestic political problems.

For Commercial Banking Business, loans in the first half was growing but NPL in the first and the second quarter was significantly shift up. Allowing the financial institutions to strict on loans in the Third and the Forth quarter, resulting in the loans growth slowed down in the second half and the competition among banks reduced the level of violence. The growth of deposits followed the growth of loans. Moreover, all commercial banks aim the continually growth of fee income so each of them need to compete on both products and market strategies in order to increase earning channels besides interest income.

Overview of operation

On November 27, 2013, LH Financial Group Public Company Limited has signed Agreement to purchase of the entire issued share capital of CIMB Securities International (Thailand) Public Company Limited at the amount of 635,900,646 shares or 99.79% of paid up capital. The result of this agreement, the Company will be the major shareholder of CIMB Securities International (Thailand) Public Company Limited in order to expand the financial transactions of financial group, LH Financial Group Public Company Limited, in securities trading and financial advisory service. Now such stock purchasing is on the process of approval consideration from the Bank of Thailand. The Stock Purchasing is expected to be completed in January 2014 and will be provided brokerage service in Q2, 2014.

Land and Houses Bank Public Company Limited is assigned the company rating of “A-” (Single A Minus) by TRIS Rating and the rating outlook of “Stable”. The rating reflects LH Bank’s continual improvements in its business and financial profiles and takes into consideration as the good asset quality and high capitalization.

Products and Services

Land and Houses Bank Public Company Limited has continuously developed for the financial products and services to meet the needs of the customer. The Bank emphasized on developing the wider diversification of products and services by offer many products and services namely,

LH Bank Speedy is an internet banking service which accommodates the financial transactions that can perform transactions on anywhere and anytime. LH Bank Speedy has a Double Security system for ensuring on the transaction. The menus are easy to use. Customers can transfer money, Operate products and services payment, check cheque status or seize including monitoring of their accounts. And the Bank will send SMS to the customer for the result of the transaction that they do.

Internet Banking on Mobile is a service which can operate transaction easily and quickly on everywhere and every time via a mobile phone without network restrictions. This service has no need to change SIM card, just use a mobile phone to connect internet to access Internet Banking on Mobile for operate transaction easily.

Deposit - withdraw cash without slip is a service with more convenient for customers who operate any transaction at the bank branch. The customer just informs the teller the intend of deposit-withdraw, the teller will perform transaction and slip for the customer to sign.

Credit Bureau checking service is a service with more convenient for customer and people who need to check their credit bureau by applying for Credit Bureau checking service at the Bank's counter in every branch.

Mobile Branch is considered as a delivery branch of the Bank. This service is an additional financial service channel for customer in various areas with the financial transaction service such as open account service, deposit, withdraw, transfer, and pay for product and service including ATM Booth service and applying for an ATM card.

LH Bank SMS Alert is the service which the Bank developed for customer to aware of the movements of the various account by sending SMS alert when the customer's account has some movement via mobile phone. Which allow customer know the status of account in order to increase the customer's confidence on financial transaction.

Branches Network

At the end of 2013, Land and Houses Bank Public Company Limited has totaling 100 branches, increased 35 branches when compared with the end of 2012 which is branches in Bangkok and perimeter 57 branches and branches in provincial part 43 branches. Almost of expanded branches in this year were branches in HomePro. The Bank was a partnership with Home Product Center Public Company Limited on the purpose to expand branches in every province which HomePro located. This was the strategic on branches expansion to coverage service in all area and to expand its customer base.

Analysis of the operating results

The Management discussion and Analysis of operating results of the Company and its subsidiaries performance is the comparative performance of the year 2013 compared to the year 2012.

LH Financial Group Public Company Limited and its subsidiaries had net operating profit on the year 2013 amounted of 893.40 million Baht, increased by 210.62 million Baht or up 30.85% when compared with the year of 2012. The increase was the result of net interest income up to 31.49% following the growth of loan. In addition, net fees and service income up to 119.35% which almost increasing is a fee of loan services and fund management fees.

Basic earnings per share for the year 2013 were 0.0716 Baht per share and 0.0573 Baht per share. The return on equity (ROE) for the year 2013 were 6.12% and for the year 2012 were 4.97% per year.

Net Interest Income

In the year 2013, the Company had net interest income amounted of 2,798.72 million Baht, increased by 670.29 million Baht or up 31.49% when compared to the same period of last year at 2,128.43 million Baht. Interest income amounted of 6,518.19 million Baht, increased 1,662.06 million Baht or up 34.23%, following the growth of loans. While the interest expenses was at amounted of 3,719.46 million Baht increased from the same period of last year at amounted of 991.77 million Baht or up 36.36% due to an increasing of market interest rates as the result of the competition of deposit and due to the growth of deposit.

Net Interest Income after deducted bad debt and doubtful accounts

Land and Houses Bank Public Company Limited record allowances for bad debt and doubtful accounts based on the guideline of the Bank of Thailand. It evaluates the status of debtors based on its experiences.

Net interest income after deducted bad debt and doubtful accounts grow from amounted of 1,851.43 million Baht in the year 2012 to 2,272.72 million Baht in the year 2013 or up 22.75%.

The Bank has recorded allowances for bad debt and doubtful accounts including revaluation allowance for debt restructuring at amounted of 526.00 million Baht in the year of 2013 and amounted of 277.00 million Baht in the year 2012, the ratio of reserves to the money should made up is at 126.74% increase from the same period of last year at 112.37%.

Net non-interest income

Net non-interest incomes are including net fees and service income, gains on investments, net gains on trading transaction, dividend income and other operating income. Net non-interest income continuously increased from 355.89 million Baht in the year 2012 up to 516.67 million Baht in the year 2013, increased by 160.78 million Baht or up 45.18%. Almost incomes was net fees and service income amount of 249.01 million Baht and gain on investments amount of 210.39 million Baht.

Other operating Expenses

In the year 2013, the Company had other operating expenses at amounted of 1,689.02 million Baht, increased by 380.37 million Baht, or up 29.07% when compared to the year 2012 at amounted of 1,308.65 million Baht, as a result of the increase of many employee's expenses that provide for branch expansion for the bank, premises and equipment expenses increased from expansion of 65 branches at year 2012 to 100 branches at the end of the year 2013. The ratio of other operating expense to total revenue from operations for year 2013 is at 50.94% which increase when compared to the same period the last year at 52.68%.

As of December 31, 2013, the Bank had 1,365 employees, representing an increase of 182 employees compared to the ended of year 2012 there were 1,183 employees. Almost of increasing was due to the increase of branches.

Profits from operating before bad debts and doubtful accounts, and tax

The Company and its subsidiaries had profits from operating before bad debts and doubtful accounts and tax grew constantly from 1,175.67 million Baht in the year 2012 to 1,626.37 million Baht in the year 2013 or up 38.34%, due to net interest income increased by the expansion of loans.

Analysis of the Financial Position

The Management discussion and Analysis of operating results of the Company and its subsidiaries is a comparison of the financial positions as of December 31, 2013 and as of December 31, 2012.

Total assets

As of December 31, 2013, the Company had total assets amounted of 149,098.71 million Baht, increase by 26,729.94 million Baht when compared to year 2012 at amounted of 122,368.77 million Baht or up 21.84%. Core assets comprise of net loans and accrued interest receivables at 68.69% of total assets, followed by net investments, at 24.46% of total assets.

Loans (included interbank and money market items)

As of December 31, 2013, the Company had loans deducted deferred revenue at amounted of 108,487.54 million Baht, increased by 19,111.64 million Baht when compared to year 2012 at amounted of 89,375.90 million Baht or up 21.38%. Almost of loans were corporate loans, followed by housing loans at 34.48 and 29.68 of total loans, respectively.

Allowance for doubtful debts

As of December 31, 2013, the Company had allowance for doubtful debts amounted of 1,422.30 million Baht, increased by 508.29 million Baht when compared to the ended of year 2012 at amounted of 914.01 million Baht or up 55.61%, and revaluation allowance for debt restructuring amounted of 11.18 million Baht, decreased by 3.75 million Baht when compared to the ended of year 2012 amounted of 14.93 million Baht or down 25.10%.

Non-performing Loans

As of December 31, 2013, the Company had non-performing loans (Gross) amounted of 1,980.14 million Baht, increased by 356.30 million Baht when compared to the ended of year 2012 which had amounted of 1,623.84 million Baht or up 21.94%. The ratio of non-performing loans (gross) to total loans at 1.83% of total loans.

Non-performing loans (Net) amounted of 1,227.45 million Baht, increased by 143.48 million Baht when compared to the ended of year 2012 which had amounted 1,083.97 million Baht or up 13.24%. The ratio of NPLs (Net) to total loans at 1.14% of total loans after deducted allowance for doubtful debts and non-performing loans.

Investments in securities

As of December 31, 2013, the Company had net investments in securities which had book value at amounted of 36,466.10 million Baht, increased by 7,327.16 million Baht when compared to the ended of year 2012 at amounted of 29,138.95 million Baht or up 25.15%. Almost the investments concentrated in the securities issued by government and state enterprises and private sector debt securities.

Total liabilities

As of December 31, 2013, the Company had total liabilities amounted of 134,077.51 million Baht, increased by 25,875.20 million Baht when compared to year 2012 at amounted of 108,202.31 million Baht or up 23.91%. Almost total liabilities was net deposits and interbank and money market items were 81.15% and 17.54% of total liabilities, respectively.

Shareholders' Equity

As of December 31, 2013, shareholders' equity amounted of 15,021.20 million Baht, increased by 854.74 million Baht when compared to the ended of year 2012 at amounted of 14,166.46 million baht or up 6.03%.

Capital Adequacy and Total Capital Fund to Risk Assets

As of December 31, 2013, Land and Houses Bank Public Company Limited maintained the ratio of total capital fund to risk assets (BIS ratio) at 13.21%, higher than the 8.50% minimum rate required by the Bank of Thailand and decreasing when compared with December 31, 2012 which at 16.17%.

The ratio of Tier I capital fund to risk assets was 12.53%, higher than the 6.00% minimum requirement of the Bank of Thailand.

Table: The ratio of capital fund to risk assets

| The ratio of capital fund to risk assets | As of December 31, 2013 | | As of December 31, 2012 | |
|--|-------------------------|-------|-------------------------|-------|
| | Million Baht | % | Million Baht | % |
| Common Equity Tier-1 capital fund | | | | |
| Bank | 13,031.26 | 12.53 | - | - |
| Minimum rates required | | 4.50 | - | - |
| Difference | | 8.03 | - | - |
| Tier-1 capital | | | | |
| Bank | 13,031.26 | 12.53 | 12,862.61 | 15.56 |
| Minimum rates required | | 6.00 | | 4.25 |
| Difference | | 6.53 | | 11.31 |
| Total Capital | | | | |
| Bank | 13,745.85 | 13.21 | 13,372.44 | 16.17 |
| Minimum rates required | | 8.50 | | 8.50 |
| Difference | | 4.71 | | 7.67 |